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KEY IDEAS:

WIN BY LOSING? COURTS APPLYING NEW RULES TO ONGOING ROYALTIES

The awkward possibility of a statutory injury (infringement) without a ready remedy (injunction) escalated after the U.S. Supreme Court decided *eBay Inc. v. MercExchange, L.L.C.,*[1] in 2006. Ever since, courts and litigants have struggled with "ongoing royalties" assessed against an infringer in the absence of a post-judgment permanent injunction. Strangely, patentees who "lose" injunctive relief may ultimately "win" with substantial ongoing royalties.

eBay Effect

Patent infringement injunctions are governed by 35 U.S.C. § 283, which says courts "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

In *eBay*, the U.S. Supreme Court reversed the Federal Circuit's long-standing rule requiring permanent injunctions against adjudicated infringers absent "exceptional circumstances" and reinstated the traditional four-factor test for injunctive relief.[2] Thus, *eBay* raised the possibility that permanent injunctive relief might be denied to a prevailing patent owner.

Still, the patent damages statute expressly provides that a prevailing patent owner must be awarded "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty . . .", and "[w]hen the damages are not found by a jury, the court shall assess them."[3]

This confluence of rules creates an "ongoing royalty" case when the court doesn't issue an injunction, but the defendant indicates its intent to continue infringing, thus forcing the court to fashion a remedy.[4] Not surprisingly, case law lacked guidance to deal with this new "ongoing royalty remedy," and the calculation of post-verdict damages became a more hotly contested issue.[5]

Threshold Issues

The unexpected arrival of ongoing royalties raised several threshold issues:

Terminology -- Courts quickly adopted the descriptive term "ongoing royalty."[6] But an "ongoing

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1 *eBay Inc. v. MercExchange, L.L.C.* , 547 U.S. 388 (2006).

2 *Id.* at 391, 394; *see Cordance Corp. v. Amazon.com, Inc.,* 730 F. Supp. 2d 333, 337 (E.D. Tex. 2010), *patent ruled invalid,* 658 F.3d 1330 (Fed Cir. 2011);

3 35 U.S.C. § 284.

4 *Voda v. Cordis Corp.,* No. CIV-03-1512-L, 2006 WL 2570614 at *6 (W.D. Okla. Sept. 5, 2006), *aff'd,* 536 F.3d 1311 (Fed. Cir. 2008).

5 *Creative Internet Adver. Corp. v. Yahoo!,* 674 F. Supp. 2d 847, 850 (E.D. Tex. 2009), *patent ruled not infringed,* No. 2010-1215, 2011 WL 1522414 (Fed. Cir. Apr. 22, 2011) (citing *Cummins-Allison Corp. v. SBM Co., Ltd.,* 669 F. Supp. 2d 774, 775-76 (E.D. Tex. 2009)).

6 *See, e.g., Paice LLC v. Toyota Motor Corp.,* 504 F.3d 1293, 1313 (Fed. Cir. 2007) (*Paice II*), *cert. denied,* 553 U.S. 1032 (2008); *Mondis Tech. Ltd. v. Chimei Innolux Corp.,* No. 2:11-cv-378-TJW-CE, 2011 WL 4591947 at *3 (E.D. Tex. Sept. 30, 2011).

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In the first ongoing royalty case to reach the Federal Circuit, the patentee argued it had a Seventh Amendment right to a jury trial to determine the amount of ongoing royalty damages. Quickly putting this issue to rest, the Federal Circuit rejected the argument, saying not all monetary relief is properly characterized as "damages."

A damages verdict relating to multiple claims or multiple defendants may affect the ongoing royalty on appeal. Where the court does not indicate the portion *of damages assigned to the infringement of one of several patent claims, and when that finding is reversed on appeal, the ongoing royalty calculation may be remanded for further proceedings.*

Even though future payment embedded in a jury verdict may not constitute a fully paid-up license, ambiguity in the verdict may affect the ongoing royalty.

royalty" is not to be confused with a "compulsory license" that anyone can pay to use[7] unless, of course, the court characterizes the ongoing royalty as a "nice way" of saying "compulsory license."[8] In any event, ongoing royalties are an extension of "supplemental damages" awarded for infringement between the date of the verdict and the date of the judgment.[9]

Seventh Amendment Rights – In the first ongoing royalty case to reach the Federal Circuit, the patentee argued it had a Seventh Amendment right to a jury trial to determine the amount of ongoing royalty damages.[10] Quickly putting this issue to rest, the Federal Circuit rejected the argument, saying not all monetary relief is properly characterized as "damages."[11] Future royalties may be ordered as an equitable remedy in accordance with 35 U.S.C. § 283.[12]

Severing Ongoing Royalty Claim – Some courts severed ongoing royalty damages and required supplemental complaints for those damages.[13] Other courts declined to sever ongoing royalty issues and/or require the patentee to file a separate complaint because there would be no issues for decision except simple mathematical calculations once the ongoing royalty is determined.[14]

Effect of Damages Award – The damages verdict may have a direct effect on the ongoing royalty.

- **Paid-Up License** -- The damages verdict may constitute a fully paid-up license to practice the invention and cover past and future infringement.[15] In that case, an ongoing royalty is not needed.
- **Multiple Patents or Parties** -- A damages verdict relating to multiple claims or multiple defendants may affect the ongoing royalty on appeal. Where the court does not indicate the *portion* of damages assigned to the infringement of one of several patent claims, and when that finding is reversed on appeal, the ongoing royalty calculation may be remanded for further proceedings.[16] The same will hold true where infringement is decided on a claim-by-claim basis, if the damages verdict is not specific.
- **Future Damages** -- The jury verdict may cover past and, possibly, future royalties. Even though future payment embedded in a jury verdict may not constitute a fully paid-up license, ambiguity in the verdict may affect the ongoing royalty.[17] In one case, the patentee failed to present evidence of past damages and was denied past damages, but the court held that ongoing royalty damages for future infringement were not precluded. [18]

Federal Circuit Cases

While it muddied the waters, *eBay* actually gave no inkling of how to deal with ongoing royalties.[19]

7 *Paice II,* 504 F.3d at 1313 n.13; *Creative Internet Adver. Corp.,* 674 F. Supp. 2d at 852 n.6.

8 *Hynix Semiconductor Inc. v. Rambus Inc.,* 609 F. Supp. 2d 951, 986 (N.D. Cal. 2009) (citing *Paice II,* 504 F.3d at 1316 (Rader, J. concurring)); *see Innogenetics, N.V. v. Abbott Labs.,* 512 F.3d 1363, 1381 n.9 (Fed. Cir. 2008); *IMX v. Lending Tree,* 469 F. Supp. 2d 203 (D. Del. 2007).

9 *Mondis Tech. Ltd.,* 2011 WL 4591947 at *2; *Datatreasury Corp. v. Wells Fargo & Co.,* No. 2:2006cv00072, 2011 U.S. Dist. LEXIS 118443 at *6, *7 (E.D. Tex. Aug. 2, 2011).

10 *Paice II,* 504 F.3d at 1315-16.

11 *Id.* at 1316.

12 *Creative Internet Adver. Corp.,* 674 F. Supp. 2d at 851 (citing *Paice II,* 504 F.3d at 1315).

13 *z4Tech., Inc. v. Microsoft Corp.* , 434 F. Supp. 2d 437, 444 (E.D. Tex. 2006); *Avid Ident. Sys., Inc. v. Phillips Elec. N. Am. Corp.,* No. 2:04CV-183, 2008 WL 819962 at *4 (E.D. Tex. Mar. 25, 2008).

14 *Voda v. Cordis Corp.,* No. CIV-03-1512-L, 2006 WL 2570614 at *6 (W.D. Okla. Sept. 5, 2006), *aff'd,* 536 F.3d 1311 (Fed. Cir. 2008); *see Hynix Semiconductor Inc. v. Rambus Inc.,* 609 F. Supp. 2d 951, 986 (N.D. Cal. 2009).

15 *See, e.g., Innogenetics, N.V. v. Abbott Labs.,* 512 F.3d 1363, 1380 (Fed. Cir. 2008); *Telcordia Tech., Inc. v. Cisco Sys., Inc.,* 592 F. Supp. 2d 727, 747 n.8 (D. Del. 2009), *remanded for royalty negotiation,* 612 F.3d 1365, 1378-79 (Fed. Cir. 2010).

16 *Verizon Serv. Corp. v. Vonage Holdings Corp.,* 503 F.3d 1295, 1310 (Fed. Cir. 2007) (reversed on one patent, remanded to consider effect on ongoing royalty).

17 *Innogenetics, N.V.,* 512 F.3d at 1379-80.

18 *Boston Scientific Corp. v. Johnson & Johnson,* 550 F. Supp. 2d 1102, 1109, 1119-22 (N.D. Cal. 2008).

19 *See Paice LLC v. Toyota Motor Corp.,* 609 F. Supp. 2d 620, 623-24 (E.D. Tex. 2009) (*Paice III)* (on remand from *Paice II*).

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… a district court is not required to impose an ongoing royalty remedy when it denies permanent injunctive relief.

"[P]re-suit and post-suit acts of infringement are distinct, and may warrant different royalty rates given the change in the parties' legal relationship and other factors."

"The Federal Circuit has instructed that post-verdict infringement should typically entail a higher royalty rate than the reasonable royalty found at trial."

… the court must *give the parties an opportunity to negotiate among themselves in an attempt to agree to an ongoing royalty.*

Despite considering ongoing royalty issues in several cases,[20] the Federal Circuit has yet to provide definitive guidelines for district courts.[21] Several helpful rules have, however, emerged:

Not Automatic -- Awarding ongoing royalties in lieu of an injunction may be appropriate,[22] but such relief should not be given as a "matter of course."[23] Simply put, a district court is not required to impose an ongoing royalty remedy when it denies permanent injunctive relief.[24]

Changed Circumstances -- "[P]re-suit and post-suit acts of infringement are distinct, and may warrant different royalty rates given the change in the parties' legal relationship and other factors."[25] Where a permanent injunction is ordered but stayed pending appeal, however, the calculus for determining ongoing royalty damages is different.[26]

Note that some judges in the Eastern District of Texas have used language from *Paice* and *Amado* on the distinction between pre-suit and post-suit infringement as the basis to conclude, "The Federal Circuit has instructed that post-verdict infringement should typically entail a higher royalty rate than the reasonable royalty found at trial."[27] The same courts also cite policy rationale to support this conclusion.[28] It is unclear that such a conclusion is warranted by the language of the Federal Circuit's opinions, especially when a separate willfulness analysis is undertaken.

Must Negotiate -- The district court may not *sua sponte* set an ongoing royalty rate. Rather, the court *must* give the parties an opportunity to negotiate among themselves in an attempt to agree to an ongoing royalty.[29]

Additional Evidence -- If the parties cannot agree to an ongoing royalty rate, the district court may consider additional evidence to determine the appropriate ongoing royalty rate.[30]

Discretion -- The district court has considerable discretion in awarding ongoing royalties,[31] but must provide a concise and clear explanation of its reasons for the award.[32]

District Court Cases

Various district courts have grappled with the mechanics for determining ongoing royalties. While findings of infringement or validity in some of the cases have been reversed, rendering an ongoing royalty moot, the cases illustrate how district courts approach key questions. Some courts characterize it as, "[W]hat amount of money would reasonably compensate a patentee for giving up his right to exclude yet allow an ongoing willful infringer to make a reasonable profit?"[33] Several options and trends have emerged:

Jury Question -- One court vigorously advocates submitting jury questions on the issue of ongoing royalties.[34]

20 *See Telcordia Tech., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365 (Fed. Cir. 2010); *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008); *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007), *cert. denied,* 553 U.S. 1032 (2008) (*Paice II*); *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295 (Fed. Cir. 2007).

21 *Mondis Tech. Ltd. v. Chimei Innolux Corp.*, 2011 WL 4591947 at *3 (E.D. Tex. Sept. 30, 2011).

22 *Telcordia Tech., Inc.*, 612 F.3d at 1379 (citing *Paice II,* 504 F.3d at 1314).

23 *Paice II,* 504 F.3d at 1314-15.

24 *See, e.g., Cordance Corp. v. Amazon.com, Inc.*, 730 F. Supp. 2d 333, 344-46 (E.D. Tex. 2010), *patent ruled invalid,* 658 F.3d 1330 (Fed Cir. 2011); *Telcordia Tech., Inc.*, 592 F. Supp. 2d 727, 748 (D. Del. 2009).

25 *Paice II,* 504 F.3d at 1317 (Rader, J. concurring).

26 *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 (Fed. Cir. 2008).

27 *See, e.g., Creative Internet Adver. Corp. v. Yahoo!,* 674 F. Supp. 2d 847, 861 (E.D. Tex. 2009), *patent ruled not infringed,* No. 2010-1215, 2011 WL 1522414 (Fed. Cir. Apr. 22, 2011); *Datatreasury Corp. v. Wells Fargo & Co.*, No. 2:2006cv00072, 2011 U.S. Dist. LEXIS 118443 at *8-*9 (E.D. Tex. Aug. 2, 2011).

28 *Creative Internet Adver. Corp.*, 674 F. Supp. 2d at 862; *Paice III,* 609 F. Supp. 2d at 628, 630.

29 *Paice II,* 504 F.3d at 1315, 1317 (opportunity to negotiate required) (Rader, J. concurring).

30 *Id.* at 1315, 1316 (Rader, J. concurring); *Paice III,* 609 F. Supp. 2d at 628.

31 *Paice II*, 504 F.3d at 1316 (Rader, J. concurring).

32 *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 (Fed. Cir. 2008) (citing *Paice II,* 504 F.3d at 1315).

33 *Paice III,* 609 F. Supp. 2d at 624.

34 *See, e.g., Ariba, Inc. v. Emptoris, Inc.*, 567 F. Supp. 2d 914, 916 (E.D. Tex. 2008); *Cummins-Allison Corp. v. SBM Co., Ltd.*, 584 F. Supp. 2d 916, 917-18 (E.D. Tex. 2008); *Cummins-Allison Corp. v. SBM Co., Ltd.*, 669 F. Supp. 2d

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Burden -- The burden of proving ongoing royalties is on the patentee.[35]

Alternate Methods – District courts have examined alternate methods for determining the ongoing royalty,[36] including: (1) using a pre-verdict *Georgia-Pacific* analysis that does not account for post-verdict changes in the parties' relationship; (2) disregarding the *Georgia-Pacific* analysis and focusing solely on the post-verdict relationship; or (3) using a modified *Georgia-Pacific* analysis to establish an ongoing royalty based on weighing the factors differently in a post-verdict analysis.[37]

Modified *Georgia-Pacific* Analysis -- The "modified *Georgia-Pacific* approach has been used in several cases.[38] Under that approach, the jury verdict is the baseline for determining the ongoing royalty rate,[39] Once the baseline is determined, the *Georgia-Pacific* factors are applied for the ongoing royalty rate,[40] with the date of the verdict/judgment set as the date for the hypothetical negotiation.[41]

Courts using the modified *Georgia-Pacific* approach in the Eastern District of Texas regularly apply a willfulness analysis *after* determining the ongoing royalty rate.[42] This analysis is based on the notion that following a verdict, "a defendant's continued infringement will be willful absent very unusual circumstances."[43] The fact that the matter is on appeal or may be appealed makes no difference to this analysis.[44] Courts adopting this approach apply the *Read Corp. v. Portec*[45] factors for determining the amount to enhance damages for willful infringement.[46]

Conclusions & Suggestions

• Ask for special jury questions to clarify the nature of any damages award. To what patent claims and what parties does the award relate? Does the award calculate future damages in addition to past damages? Are damages a fully paid-up royalty? Is the patent exhausted?

• Remember you have the right to negotiate with the opposing party to agree to a royalty if at all possible. If the negotiation fails, the court will decide your fate.

• Understand the district court's ground rules for determining an ongoing royalty.

• Think about an appropriate baseline for analyzing the ongoing royalty.

• Focus on changed circumstances that will either increase or decrease any ongoing royalty.

• Should you seek or resist a stay of any injunction to limit or increase the possibility of an enhanced royalty rate?

• Question whether a willfulness analysis is appropriate if you are the infringer.

774, 780 (E.D. Tex. 2009) (considering responses to earlier order).

35 *Creative Internet Adver. Corp. v. Yahoo!,* 674 F. Supp. 2d 847, 855 (E.D. Tex. 2009).

36 *Boston Scientific Corp. v. Johnson & Johnson,* No. C 02-00790 SI, 2009 WL 975424 at *4-*5 (N.D. Cal. Apr. 9, 2009); *Mondis Tech. Ltd. v. Chimei Innolux Corp.,* 2011 WL 4591947 at *4-*5 (E.D. Tex. Sept. 30, 2011).

37 *Creative Internet Adver. Corp.,* 674 F. Supp. 2d at 851-52; *Affinity Labs of Texas, LLC v. BMW N. Am., LLC,* 783 F. Supp. 2d 891, 898-901 (E.D. Tex. 2011).

38 *See, e.g., Mondis Tech. Ltd.,* 2011 WL 4591947; *Creative Internet Adver. Corp.,* 674 F. Supp. 2d 847; *Affinity Labs of Texas, LLC,* 783 F. Supp. 2d 891.

39 *Mondis Tech. Ltd.,* 2011 WL 4591947 at *5.

40 *Id.; Datatreasury Corp. v. Wells Fargo & Co.,* 2011 U.S. Dist. LEXIS 118443 at *5, *9 (E.D. Tex. Aug. 2, 2011).

41 *Datatreasury Corp.,* 2011 U.S. Dist. LEXIS 118443 at *9; *Boston Scientific Corp. v. Johnson & Johnson,* 2009 WL 975424 at *1 (N.D. Cal. 2009).

42 *See, e.g., Mondis Tech. Ltd.,* 2011 WL 4591947; *Creative Internet Adver. Corp.,* 674 F. Supp. 2d 847; *Affinity Labs of Texas, LLC,* 783 F. Supp. 2d 891.

43 *Affinity Labs of Texas,* 783 F. Supp. 2d at 899.

44 *Mondis Tech. Ltd.,* 2011 WL 4591947 at *8-* 9.

45 *Read Corp. v. Portec,* 970 F.2d 816 (Fed. Cir. 1992).

46 *See, e.g., Mondis Tech. Ltd.,* 2011 WL 4591947 at *10; *Affinity Labs of Texas, LLC,* 783 F. Supp. 2d at 902.